

# **GLOSSARY**

## **Abatement**

A reduction or elimination of a levy imposed by a governmental unit, applicable to property tax bills, motor vehicle excises, fees, charges, and special assessments.

## **Adopted Budget**

The resulting budget that is voted/approved by the City Council or the Control Board.

## **Appropriation**

An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation usually specifies the source of funds, limits the amount and specifies the period during which the funds may be expended. Only town meeting or City Council can authorize money appropriated for one purpose to be used for another.

Any amount that is appropriated may be encumbered (see encumbrance). Any part of an annual operating appropriation not spent or encumbered by June 30 automatically reverts to the undesignated fund balance that may result in free cash. If departments know of remaining unpaid bills at the close of the fiscal year and properly notify the accountant/auditor (MGL Ch. 41 § 58), the departmental appropriation is encumbered to extend the annual spending authorization until such time that the bill is paid or it is decided not to spend the funds. If these encumbrances are not acted on within a year, the accountant generally notifies the department and closes them out.

## **Bond**

A written promise to pay a specified sum of money, called the face value (par value) or principal amount, at a specified date in the future, called the maturity date, together with periodic interest at a specified rate. While similar to a note, bonds have longer terms (difference between issue and maturity dates) than notes.

## **Bond Anticipation Note (BAN)**

Short-term note of a government sold in anticipation of bond issuance. BANs are full faith and credit obligations.

## **Bond Rating**

Evaluation of the credit quality of bonds (or notes) usually made by an independent service with the result expressed as a code consisting of letters and numbers. A rating indicates the probability that the issuer will make timely repayment of principal and interest. A rating for a bond issue is prepared before issuance and periodically reviewed and updated if necessary.

## **Budget**

A plan of financial operation for a given period of time that includes an estimate of proposed revenues and expenditures and any required outside financing. A budget may be a "preliminary" budget presented to the town meeting, or City Council, or a "final" budget approved by that body. The budget should be separated into basic units, based on department, program, or service. The budget should include as much information as possible about the output or accomplishments expected for each budget unit (department, program or service) during the budget period. Formatting the budget in this way helps local officials and citizens make policy decisions when allocating scarce resources.

## **Capital Budget**

An annual appropriation or spending plan for capital expenditures. Capital expenditures are usually associated with acquiring tangible assets or completing projects that have a useful life of at least five years. The capital budget should recommend the method of financing for each item and identify those items that may be deferred due to scarce resources.

## **Capital Improvements Program**

A comprehensive plan for capital expenditures within a municipality. A capital improvement program coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be identified in the program, the program includes a set of criteria prioritizing expenditures. An improvements program usually covers a period that extends at five or more years beyond the capital budget.

## **Charges for Service**

The charges levied on users of particular services provided by the municipality requiring persons or businesses to pay for the benefits that they receive.

## **Cherry Sheet**

Detailed report on Local Aid for each city and town, plus regional school districts. Named for the cherry colored paper on which they were originally printed, the Cherry Sheets are the official means by which the Commissioner of Revenue (DOR) notifies a municipality or regional school district of the next fiscal year's state aid (receipts) and assessments.

State aid to municipalities and regional school districts consists of distributions and reimbursements. Distributions provide funds based on formulas while reimbursements provide funds for costs incurred during a prior period for certain programs or services. In addition, communities may receive "offset items" that must be spent on specific programs.

**Debt Service**

The cost usually stated in annual terms, of the principal repayment and interest of any particular debt issue.

**Encumbrance**

Obligation in the form of purchase order, contract, or salary commitment that is chargeable to an appropriation and for which a part of the appropriation is reserved.

**Efficiency Indicator**

A performance indicator that relates inputs to outputs and is usually express as a cost per unit of output.

**Expenditure**

The spending of money by a municipality for programs within its approved budget.

**Fiscal Year**

Since 1974, the Commonwealth and municipalities have operated on a budget cycle that begins July 1 and ends June 30. The designation of the fiscal year is that of the calendar year in which the fiscal year ends. For example, the 2000 fiscal year is July 1, 1999 to June 30, 2000 and is usually written as FY2000. Since 1976, the federal government has had a fiscal year that begins October 1 and ends September 30.

**Foundation Aid**

A component of Chapter 70 state aid provided to a municipality for public education. Foundation aid is based on a municipality's foundation gap that is defined as the difference between what a community can contribute (based on ability to pay) and the total amount of the foundation budget.

**Fund**

An accounting entity with a self-balancing set of accounts that are segregated for the purpose of carrying on specific activities or attaining certain objectives. Specific funds may be required to comply with specific regulations, restrictions, or limitations related to municipal finance.

**General Fund**

A self-balancing set of accounts that record the assets. Liabilities, fund equity, revenues, expenditures not accounted for in other funds. The general accounts for most unrestricted financial resources and activities governed by the normal town meeting / City Council appropriation process.

**Input Indicator**

A performance indicator that measures the amount of resources of a program or activity.

**Levy**

The amount a municipality raises each year through the property tax. The levy can be any amount up to the levy limit defined by Prop 2 ½. (MGL Ch. 59 - Assessment of Local Taxes § 21C).

**Levy Limit**

The maximum amount a community can levy in a given year. In the absence of special voted exceptions, the levy limit must be at or below the levy ceiling. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion.

The levy limit can grow each year by 2 1/2 percent of the prior year's levy limit plus new growth and any overrides. (MGL Ch. 59 - Assessment of Local Taxes § 21C (f & g)).

**License and Permit Fees**

The charges related to the regulation of activities and privileges granted by government in connection with those regulations.

**Local Aid**

Revenue allocated by the Commonwealth to municipalities and regional school districts. The annual Cherry Sheets transmit estimates of local aid to municipalities and districts. Most Cherry Sheet aid programs are considered revenues of the municipality's or regional school district's general fund and may be spent for any purpose, subject to appropriation.

**Local Receipts**

Locally generated revenues, other than real and personal property taxes and enterprise fund revenues. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals, and charges. Annual estimates of local receipts are shown on the tax rate recapitulation sheet.

**New Growth**

A calculation of the net increase in municipal property values because of new construction/subdivision or return of exempt property to the tax roles. New growth can be added to a municipality's levy limit as defined by Proposition 2 1/2 and thereby increases taxing capacity.

New growth is calculated by multiplying all increases in value that are not the result of revaluation by the tax rate of the previous fiscal year. For example, FY2000 new growth is determined by multiplying the value on January 1, 1999 by the FY1999 tax rate.

Assessors must submit documentation of new growth to the BLA (Bureau of Local Assessment) annually before setting the tax rate. Documentation should be retained for five years to satisfy BLA audit requirements.

### **Operating Budget**

A plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

### **Other Financing Source**

Bond proceeds or interfund transfers into a fund.

### **Other Financing Uses**

Interfund transfers out to another fund.

### **Outcome Indicator**

A performance indicator that measures the impact of a program or activity on the customer.

### **Output Indicator**

A performance indicator that measures the amount of work provided by a program or activity.

### **Overlay**

An account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes in that year. The overlay reserve is not established by the normal appropriation process, but raised on the tax recap sheet.

### **Payments in lieu of Taxes**

An agreement between a municipality and an entity not subject to taxation (such as a charitable or educational organization), in which the payer agrees to make a voluntary payment to the municipality. By law, a city or town must make such a payment to any other community in which it owns land used for public purposes.

### **Performance Indicator**

Variables measuring the degree of goal or objective fulfillment achieved by programs.

### **Program Budget**

A budget that relates expenditures to the programs they fund as opposed to expenditure type. The emphasis of a program budget is on output or benefits provided by each program.

**Service Quality Indicator**

A performance indicator that measures the timeliness, accuracy and customer satisfaction of a program or activity.

**Recap, Tax (Sheet)**

Form developed by the Tax Rate Recapitulation process that summarizes all revenues, expenditures, local options, assessed values, and levy components that result in a proposed tax rate. See tax rate recapitulation sheet.

**Revenues**

All monies received by a governmental unit from any source that are not bond proceeds or inter-fund transfers.

**Tax Rate**

Ratio of property tax divided by a unit of the associated municipal tax base. A tax rate can be expressed as \$14.80 per \$1,000 of assessed valuation for taxable real and personal property. The state approved local tax rate for a property class is the authorized levy for the class divided by the certified valuation. The Tax Rate Recapitulation form and supporting documentation contains proposed tax rates for a municipality and approval of this form means approval of the proposed tax rates.